Giving a Full 5%

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Charitable foundations do much good work, but they can also be as unaccountable as the federal bureaucracies they often resemble. A useful effort is under way on Capitol Hill to compel foundations to do more of what they were ostensibly set up to do -- give to charity.

Representatives Roy Blunt (R., Missouri) and Harold Ford (D., Tennessee) are pushing legislation to curb a common abuse at many of the biggest charities: counting dollars spent on executive salaries, travel and lavish offices and other administrative costs as charitable spending. The bill is scheduled to be marked up by Ways and Means September 4.

This is Congress's ground to plow because foundations are exempt from most federal taxes. In return they are required to pay out 5% of their assets annually to charitable causes. But many foundations now evade this obligation by including spending on themselves as part of that 5%.

The left-leaning National Committee for Responsive Philanthropy (NCRP) calculates that the giant Ford Foundation included 70% ($98 million) of its administrative costs to reach its mandated payout in 2001 -- the last year IRS statistics are available. The Annie E. Casey Foundation included 89.9% ($36.4 million) and the Fannie Mae Foundation 94% ($103 million).

The overhead loophole gives foundations an incentive to hire more staff and pay big-dollar salaries. The San Jose Mercury News recently reported that San Francisco's Irving Foundation paid a former president $717,000 in salary, retirement and other perks. And last year Texas authorities sued the Dallas-based Carl B. and Florence E. King Foundation after learning that the $2.6 million paid out in executive salaries was twice what the foundation gave to charity. Nice work if you can get it.

None of this is going down easy over at the Council on Foundations, the industry's trade association. (Question: Why do charities need a lobbying outfit?) An internal e-mail from Council spokesman Ellen Dadisman (leaked to us) captures the mood: "We should consider the source of this provision, when we find it, in activating all our contacts with members to stop this provision (the napalm approach)."

The foundations would have a point if the proposed change forced them to spend themselves out of existence. But the top 290 foundations earned an annual 7.62% return on their investments from 1972 through 1996. That's a large enough umbrella to cover their own overhead. Congress initially mandated a 6% pay out rate in 1969. An NCRP study finds that foundations could have spent 6.5% of their assets annually from 1950 to 1998 and still have grown their endowments by 24%.

We are not suggesting that any of these outfits are crooked or not dedicated to good works. We know foundations are perfectly capable of spending more than 5% because many already do. Even in this economy, Casey expects to spend about 7% of its assets this year, although not all of that spending can be included in its charitable filing with the IRS. The Ford Foundation spent 7.3% in 2001 and 6% last year.

Foundations are an ever larger part of American life, and as such shouldn't be exempt from public scrutiny. The Blunt-Ford proposal is a modest attempt to hold foundations to their charitable mandate, and along the way free up billions of more dollars for philanthropic ends. Sounds like a good deed to us.